Attn. David D.

PDM® Steel Service Centers, Inc.

Market Notes January 2004

Dramatic Changes For The Steel Industry

For the past two years domestic steel consumption levels have been flat, following a sharp decrease from the historically high levels of 2000. Weak demand, excess production capacity and high inventory levels forced the closure or bankruptcy of some domestic mills and downsizing in every corner of the service center industry. Making matters worse, unneeded import steel was arriving in late 2001 and 2002 at lower prices, sustaining even more erosion in the domestic steel market. Reacting to the crisis in the steel industry, President Bush enacted the Article 201 Trade Tariffs in an effort to regulate import steel and to encourage consolidation within domestic steel mills toward a long term fix.

Mill Costs

In the often overlooked scrap market, by mid 2002 prices were beginning to increase daily as export demand for domestic scrap increased. China's growing infrastructure created an intensified need for finished steel products from scrap fed Asian steel mills. As scrap reserves diminished in Asia, buyers turned to the U.S. market to secure feedstock for their mills. This increase in demand has steadily driven prices higher for the U.S. scrap market. In some areas it has even created a temporary shortage of scrap feedstock for domestic mills. An example of how dramatic these increases are; heavy#1 scrap which was selling a year ago at $65 to $75/ton is selling at over $200/ton in some parts of the country today.

In the latter half of 2002 the vast majority of domestic mills were absorbing the scrap price increases, fearing that the markets for finished goods would not sustain any increases in pricing. After numerous increases however, domestic mills could not continue absorbing the scrap price increases and began raising prices for finished goods.

The scrap issue was not the only cause for the increases in prices. Natural gas and electricity costs also increased as a result of sharp and steady residential and commercial growth. Power companies were less interested in the competitive industrial power contracts because they had a steadily growing market in residential and commercial developments that paid higher rates for energy.

These costs drivers, whether in scrap or energy, are the key contributors to higher prices for finished steel goods and there appears to be no relief in sight. Domestic mills are struggling with runaway raw material costs and are now trying to manage an increased demand which is mostly caused by speculative buying.

Additionally, the weak dollar has and will continue to keep most imports away for the foreseeable future. Regardless of the recent lifting of the Trade Tariffs, many international mills can ship finished products to China at higher prices and avoid the devaluation of currency which now exists with the dollar. China in turn, is building additional steel producing capacity which will begin to come on line in 2005. These mills are scrap fed which may perpetuate the scrap problem even further.

What We Are Doing

So what does this mean for all of us? For the next six months we expect to see increased prices on all products from every steel mill. With the volatility in scrap pricing being so unpredictable, some mills have now announced "price in effect at time of shipment" pricing, rather than "at time of order", and other mills are implementing a monthly surcharge to deal with the ongoing scrap problem.

Every PDM salesman has been instructed to keep you, our customer, informed of the changes in market conditions and to assess the best way to meet your company's specific needs or concerns. In short, we will do everything we can to help you adjust and react properly to these trying market conditions.

As a result of the current market conditions beyond our control, the practice of project specific or extended pricing has been discontinued in each PDM branch. We recognize the challenges that our structural fabricator customers will have with non-firm pricing associated with the "raw material surcharges", and the "price in effect at time of shipments" from the structural mills. We will continue to do everything within our power to inform you, to work with your specific project needs and to provide you with material when you need it at fair market prices.

We appreciate your support and will continue to look for opportunities to help you succeed in your business. If you have any questions or concerns, please contact your PDM Salesman, or local General Manager who will be glad to assist you.